

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adopting Ordinance No. 441 creating Section 5.05 of the Shoreline Municipal Code regarding business licenses and Adopting Ordinance No. 444 creating Section 3.01.080 of the Shoreline Municipal Code establishing a fee for business licenses.
DEPARTMENT:	Finance
PRESENTED BY:	Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

The Council's 2005-2006 work plan includes the implementation of an active economic improvement plan. One of the milestones included in this goal is the implementation of a City business license/registration program. In accordance with Council direction, Ordinance No. 441 will create Section 5.05 of the Shoreline Municipal Code (SMC) regarding business licenses. Ordinance No. 444 will amend Section 3.01 of the SMC establishing a \$50 fee for a 12 month business license.

FINANCIAL IMPACT:

The 2007 proposed budget includes \$90,000 in business license revenue. At \$50 per license, the City would need to issue 1,800 business licenses to raise this level of revenue. At this time staff does not have a complete list of all businesses that will be required to license, but based on our sales tax records a minimum of 1,400 businesses should register, and we anticipate that the actual number of licenses issued will exceed this number.

At this time staff has not included additional staffing to implement the business license program. We have discussed the staffing impacts of administering the business license program with other cities that are partnering with the State of Washington Master Licensing Service and found that each City is different. Sammamish felt that they had very minimal staffing impact once the initial business letters were distributed. Bellevue and Tumwater, on the other hand, have additional staff to assist with the business license program, but it appears that much of the work done by staff is a result of the business and occupation tax that these cities also levy. Although staff is not recommending additional staffing at this time, Council should be aware that as we implement this program we will continue to monitor and may have to request additional staffing support if the workload becomes too burdensome for existing staff.

RECOMMENDATION

Staff recommends that the City Council adopt Ordinance No. 441 creating Section 5.05 of the Shoreline Municipal Code regarding business licenses and Ordinance No. 444 creating Section 3.01.080 of the Shoreline Municipal Code establishing a fee for business licenses.

Approved By: City Manager  City Attorney _____

INTRODUCTION

The Council's 2005-2006 work plan includes the implementation of an active economic improvement plan. One of the milestones included in this goal is the implementation of a City business license/registration program. In accordance with Council direction, Ordinance No. 441 will create Section 5.05 - Business Licenses of the Shoreline Municipal Code (SMC). Ordinance No. 444 will amend Section 3.01 – Fees of the SMC to establish a \$50 fee for a 12 month license.

BACKGROUND

Business Licenses

The City Council has given staff direction to develop a business license program for regulatory purposes.

Purposes for implementing a regulatory business license for all businesses include:

- Provide the City with a record of the owners and other contact information;
- Provide a master list of businesses and types of businesses that conduct business within Shoreline;
- Help ensure compliance with City ordinances (for example, zoning, fire and life safety, etc.); and,
- Provide a listing of businesses that can be used to audit against sales tax receipts to ensure that the City is receiving sales tax from all applicable businesses.

Regulatory business license fees are set at a flat rate per license in an amount designed to recover both the direct and indirect costs of registering the businesses and the issuing the licenses, maintaining the files, and inspecting businesses to make certain that all have a license.

State of Washington Master License Services (MLS)

The City Council agreed with staff's recommendation to pursue a business license partnership with MLS.

The MLS is a program within the state Department of Licensing that provides a centralized "one-stop" combined-licensing service to state and local agencies and the business community. The combined-licensing allows MLS to provide a single, centralized process on behalf of many different licensing agencies. Businesses indicate the licenses they need on a Master Application form that addresses the questions common to most applications, along with some specific information required of individual agencies. Applicants complete the single application and pay all required fees for the various agencies with a single check. A separate application must be filed for each physical business location, a common requirement of city business license programs. The application is processed at MLS, where the appropriate fees and information are then distributed through an automated process to each licensing agency affected by that application.

MLS is supported through the processing fees it charges applicants and licensees directly for the combined licensing services provided. These processing fees are currently \$15 to file a Master Application, regardless how many licenses are

requested on the application; and \$9 to file a renewal, again regardless of the number of licenses being renewed. For Shoreline businesses that are already obtaining a license through the Department of Licensing, the business is already paying this processing fee when they file their master license application.

Process

Currently staff is working with both MLS and the Department of Revenue (DOR) to get a listing of the businesses that have reported doing business within the City of Shoreline so that the City can begin notifying businesses that they must obtain a City of Shoreline business license.

At the City Council meeting on October 2, 2006, the Council asked staff to look at a revised implementation schedule based on the completion of the Aurora 145th-165th project. Staff has worked with MLS to develop the following proposed schedule:

To be completed by January 15, 2007:

1. The Department of Revenue is currently compiling a list of all businesses, that have registered with them, that have a physical location within the City of Shoreline, or businesses that have reported sales tax activity to the City of Shoreline, but that may not be physically located within Shoreline. This information should be made available soon.
2. The City will review this list and add any businesses that can be identified as existing in Shoreline. The City will use this list to develop an initial mailing list.
3. The City sends a "free application" letter to all the businesses on the mailing list. At this time businesses are not required to pay any fee as the information returned by the businesses will be used to establish the initial business license database and used by MLS to match against any businesses that already have a MLS account. The "free" period will expire on April 30, 2007.

To be completed by March 16, 2007:

1. MLS processes incoming letters into the MLS system (performs a "match conversion") using an assumed 4/30/07 expiration date.

March 19, 2007:

1. MLS will send renewals for the City businesses, based on the 4/30/07 assumed expiration for the accounts. As businesses complete these renewals they will pay their first City of Shoreline business license fee. Businesses that currently have an account with MLS, because they are required to obtain other State licenses, will pay a pro-rated fee that corresponds with the remaining timeframe that their existing State licenses are valid. Businesses that do not have an account with MLS will pay for and receive a City license that lasts a full calendar year. MLS staff will process renewals filed by the City licensees.

To be completed after May 10, 2007:

1. Any accounts not renewed by May 10, 2007 will be sent a delinquency notice (mailed automatically by the MLS system, and any returned will be processed by MLS).

2. After this initial conversion/proration/renewal process, the City's accounts will be on the regular MLS annual renewal cycle, based on their specific common expiration date.
3. The City will continue to monitor sales tax information, applications for permits, and business listings to ensure that all businesses obtain the required business license.

Business License Regulations

Ordinance No. 441 will create Section 5.05 of the SMC establishing business license policies and regulations. The primary regulations contained within the ordinance include:

Exemptions to the business license requirement

All businesses doing business within the City will be required to obtain a City business license with the following exceptions:

- o Government agencies
- o Sales by farmers or gardeners of their own farm products raised and grown exclusively upon lands owned or occupied by them.
- o Casual and isolated sales, such as garage sales conducted at a residence, provided, that not more than four such sales are made during the calendar year.
- o Delivery of goods by a vehicle to a customer by a business where the sale occurred on a business premises outside of the city and only event occurring within the City is a delivery.
- o Minors engaged in baby-sitting, delivery of newspapers, lawn mowing, car washing, and similar activities.

During the Council meeting on October 9, Council asked about exempting businesses from the business license program if they had annual gross receipts less than \$12,000. As staff responded that evening, Council can use a gross receipts threshold as an exemption and MLS has confirmed that this is a policy decision of the Council. Although this is the case, it is staff's recommendation that we do not establish an exemption for businesses that generate less than \$12,000 in annual gross receipts. The primary reasons for this include:

- Many businesses that have annual gross receipts less than \$12,000 must still register for various State licenses or registration with MLS. MLS handles the registration for a number of State agencies including Department of Revenue, Employment Security and Labor & Industries. Many of these businesses would still be registering and/or obtaining licenses for State purposes through MLS even if the City exempted them from obtaining a City business license.
- As businesses are exempted from having to obtain a business license the City's ability to capture a full inventory of businesses that do within business in Shoreline is diminished.
- Relatively few cities use a gross receipts threshold to establish a business license exemption.

Fee

All businesses applying for a business license will pay the same flat fee except nonprofit organizations. MLS will verify with the Secretary of State that a business that claims to be exempt from the license fee has received this designation.

Staff has clarified with MLS whether it is just 501(c) nonprofits or all non-profits that would be exempt. Really this is a policy decision for the Council, as either can be done. If the City only wants to exempt 501(c) nonprofits then these organizations will be required to submit their 501(c) certificates with their business license application. MLS will manually verify this. On the other hand, if the Council wishes to allow all nonprofits to be exempt from the license fee, then MLS can automate the process and verify against the Secretary of State's non-profit registration that a business is registered as a non-profit. MLS is willing to do either, but most cities have chosen to exempt all non-profits and have MLS automate the process. Staff recommends that the City's ordinance allow all non-profits to be exempt from the license fee. This businesses will still be required to obtain a license, but will be exempt from paying the fee.

Expiration Dates

The City license expiration date will be coordinated with the expiration date of all other licenses or permits required by the State for each business.

Requirement for licenses for individual businesses

- Businesses that are required to obtain a specialty business license from the City will still be required to do so.
- A separate business license is required for each individual location within the City.
- Businesses that conduct business within the City, but do not have a physical location within the City, will be required to obtain a City license.
- A separate license is required for each business operated on a single premises. (i.e, Starbucks and Fred Meyer)
- A business license will not be transferable

Appealing a denial

A business that is denied a business license may appeal this decision with the City's hearing examiner.

Fees

Business License Fee: Council will amend Chapter 3 of the Shoreline Municipal Code (SMC), by adopting Ordinance No. 444, to adopt the business license fee. In February staff recommended that a twelve month license cost \$65. At that time, there was Council consensus to charge \$50 for a business license. Ordinance No. 444 establishes a \$50 fee for a twelve month license. Fees collected by MLS will be remitted to the City on a regular basis.

At this time there are no City delinquent fees proposed as MLS has its own delinquent fees and will handle that paperwork for the City as well. Delinquent fees are usually 50% of the original fee.

MLS Processing Fee: An existing business that is adding a City of Shoreline license to their account after the initial conversion process will pay the \$15 fee and file a Master Application and City Addendum. After that, new businesses that do not have an account with MLS will pay a \$15 processing fee the first time they obtain any required State and/or a City of Shoreline business license. A single handling fee is assessed for all the required licenses for each physical location.

The processing fee is not a new fee for any businesses which already obtain State or other city licenses through MLS. MLS retains all processing fees. Processing fees are in addition to the City's business license fee.

SUMMARY

The recommended policies of the City's business license program align closely with the requirements of many other cities. The City's business license program will enable the City to monitor the number and types of businesses doing business in the City, provide an additional method to assure that the City is receiving sales tax from appropriate businesses and information to ensure that businesses are in compliance with City regulations. The partnership between the City and MLS will allow the City to implement the business license program with a lower administrative cost than if the City were to implement this program independently.

RECOMMENDATION

Staff recommends that the City Council adopt Ordinance No. 441 creating Section 5.05 of the Shoreline Municipal Code regarding business licenses and Ordinance No. 444 creating Section 3.01.080 of the Shoreline Municipal Code establishing a fee for business licenses.

ATTACHMENTS

Attachment A – Ordinance No. 441 Adopting Section 5.05 of the Shoreline Municipal Code regarding business licenses.

Attachment B – Ordinance No. 444 Adopting Section 3.08.010 of the Shoreline Municipal Code establishing a fee for business licenses.

Attachment C – Staff Report from February 21, 2006 on Business License Program

ORDINANCE NO. 441

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON ESTABLISHING A BUSINESS LICENSE FOR THE REGISTRATION OF BUSINESSES OPERATING WITHIN SHORELINE, AND ADDING CHAPTER 5.05 TO THE SHORELINE MUNICIPAL CODE

WHEREAS, implementing a business license program is considered to be a sound management practice to protect the City and its citizens; and

WHEREAS, the City desires to have all businesses register with the City in order to have a record of the business owners and to help ensure that businesses are in compliance with City ordinances; and

WHEREAS, the registration of all businesses will assist the City in the audit of sales tax receipts; and

WHEREAS, the State of Washington's Department of Licensing Master Licensing Service program provides the opportunity for the City of Shoreline to partner with the Department of Licensing to provide a centralized, "one-stop" combined-licensing service between the City, the State, and the business community ;

NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON DO ORDAIN AS FOLLOWS:

Section 1. New Chapter. A new Chapter 5.05 "Business Licenses" is added to the Shoreline Municipal Code as follows:

Section 5.05 BUSINESS LICENSES

Section 5.05.010	Chapter and purpose
Section 5.05.020	Definitions—general
Section 5.05.030	License required—notice
Section 5.05.040	Application and renewal
Section 5.05.050	License term or expiration
Section 5.05.060	Fee
Section 5.05.070	Exception—applicability of provisions
Section 5.05.080	Penalty for late renewal
Section 5.05.090	Violation—Penalty
Section 5.05.100	License—suspension, denial or revocation
Section 5.05.110	Additional enforcement

5.05.010 Chapter and purpose. In order for the City to responsibly carry out the duties and authorities delegated to it by the Washington State Constitution and the laws of the State of Washington as a noncharter code city, maintenance of current information

with respect to business, trade, service, commercial and professional activities carried on within the City is necessary and essential to the public health, safety and welfare. Such information can best be accumulated and maintained on a current basis through the establishment of a program for the licensing and registration of such activities. The licensing and registration program established is established to protect the public and not intended to benefit any individual or class.

5.05.020 Definitions—general

For the purposes of this chapter, the following terms, phrases, words and their derivations shall have the meaning given in this section.

- A. “Business”, “occupation” or “pursuit” means and includes all home occupations, wholesalers, retailers, service providers, towing operators, peddlers, canvassers, solicitors, for-hire vehicles, limousine services, pawnbrokers, secondhand dealers and junk dealers engaged in with the object of economic gain, benefit or advantage to the person, firm or corporation, or to another person or class, directly or indirectly, whether part-time or full-time, whether resident or nonresident.
- B. “City” means the City of Shoreline, Washington.
- C. “Clerk” means such city employees or agents as the city manager shall designate to administer this chapter, or any designee thereof.
- D. “Engage in business” means commence, conduct, or continue in business, and also the exercise of corporate or franchise powers as well as liquidating a business when the liquidators thereof hold themselves out to the public as conducting such business.
- E. “Person,” “firm,” or “corporation,” used interchangeably in this chapter, means any individual, receiver, assignee, trustee in bankruptcy, trust, estate, firm, co-partnership, joint venture, club, company, joint stock company, business trust, corporation, association, canvasser, peddler, solicitor, society, or any group of individuals acting as a unit, whether mutual cooperative, fraternal, nonprofit or otherwise, and includes the United States or any instrumentality thereof.

5.05.030 Business License required—Notices

It is unlawful for any person, firm or corporation to engage in any business, occupation or pursuit as defined in Section 5.05.020, in the city without first having obtained a business license therefore as provided in this chapter, except those businesses or activities for which a regulatory business licenses or franchise is required by any other chapter or section of the Shoreline Municipal Code as now or hereafter enacted or amended. The business license provided for in this chapter shall be posted in a conspicuous location at the place of the business. Such business license is nontransferable.

5.05.040 Application and renewal.

- A. Application for a business license shall be made by filing a Master Application through the State Department of Licensing’s Master License Service, in coordination with the City Clerk, giving such information as is deemed reasonably necessary to enable the enforcement of this chapter.

Persons applying for a license must pay a fee as established by the city council by ordinance, and the Master License Service's handling fee.

- B. A business license must be approved by the city before a business commences operation within the City. If business is transacted by one person at two or more separate locations within the City a separate application must be filed for each business location and a separate license shall be obtained and displayed in each location.
- C. The Clerk may refer applications to the Planning and Development Services Department, the Police Department, or other governmental agencies for their review. Compliance with building, zoning and other laws is the business owner's responsibility and issuance of a business license is not a guarantee of compliance or a waiver of future enforcement by the City or other agency with jurisdiction.
- D. If more than one business is conducted or operated on a single premises, a separate license shall be required for each business. Each business owner must make a separate application for license.
- E. The filing of an application for a license, or the renewal thereof, or the payment of any application or renewal fee, shall not authorize a person to engage in or conduct a business until such license has been granted or renewed.
- F. A business license is not nontransferable. No licensee shall allow another person to operate a business under, or display the license issued to their business, nor shall another person operate under or display the license issued to another business. A person who acquires an existing business must make application for a city business license before commencing business within the city with that business. A licensee must report a change of location of the business to the Master License Service, in coordination with the City Clerk. A change of the location of a business requires approval by the city before business may commence at the new location, and may require submitting a new Master Application and payment of fees.
- G. License renewals are handled by the Master License Service in coordination with the City. Renewal of the city license requires payment of fees including handling fees.

5.05.050 License term or expiration.

Each city license issued shall be issued for one year with an expiration date as determined by the Master License Service, in coordination with the City. The City license may be prorated to coordinate with the expiration date assigned by the Master License Service.

5.05.060 Fee.

- A. The fee for the business license required by this chapter shall be established by ordinance of the City Council. The fee may be pro-rated as necessary to conform to Section 5.05.050.
- B. The license fee shall be in addition to any license fee or tax imposed or levied under any law or other ordinance of the City except as otherwise expressly provided.

- C. If conducting business within the city, businesses registered with the Washington Secretary of State as a nonprofit corporation must obtain a city business license, but are exempt from paying the city's business license fee.

5.05.070 Exception – applicability of provisions.

This chapter shall not be applicable to:

- A. The performance of governmental or proprietary functions by any instrumentality of the United States, the State of Washington, or any political subdivision thereof.
- B. Sales by farmers or gardeners of their own farm products raised and grown exclusively upon lands owned or occupied by them;
- C. Casual and isolated sales, including garage sales conducted on residential premises in compliance with land use ordinances; provided, that not more than four such sales are made during the calendar year;
- D. The delivery of goods by vehicle to a customer or client by a business where the sale occurred on a business premises outside of the City and the only event occurring within the City is a delivery;
- E. Minors engaged in baby-sitting, delivery of newspapers, lawn mowing, car washing, and similar activities.

5.05.080 Penalty for late renewal. Licenses must be renewed annually on or before the expiration date, or expiration of any prorated period. Failure to renew a business license by the license expiration date may result in the assessment of a late renewal penalty, and may lead to the revocation of the city license. Notwithstanding 5.05.100.C., revocation of a license due to non-renewal may require reapplication for the city license, and approval by the city before the revoked business may continue operation within the city.

5.05.090 Violation—penalty. Any violation of this chapter shall constitute a misdemeanor and the punishment shall be as provided by the laws of the State of Washington.

5.05.100 License – Suspension, denial or revocation.

- A. A business license may be denied, suspended or revoked by the clerk whenever the licensee or any of its officers, directors, agents, owners or employees fails or have failed:
 - 1. To maintain the licensed premises or business activity in compliance with applicable health, building, fire and safety laws, ordinances or regulations;
 - 2. To comply with the requirements of this chapter; or
 - 3. To renew a business license within 120 days after the expiration date of the license.
- B. The clerk shall, by certified mail, give written notice to the applicant of denial of a license or to the licensee of suspension or revocation of a license, including a summary of the complaints, objections and information considered by the clerk

and the reason(s) for the action. Notice mailed to the mailing address on the application or most recent renewal shall be deemed received three days after mailing. The clerk's decision may be appealed to the City hearing examiner upon payment of the appropriate appeal fee.

C. Any suspension or revocation shall remain in effect until the conditions causing the suspension or revocation are cured and reasonable measures are taken to ensure that those conditions will not recur.

D. Appeals of any license suspension, revocation or denial shall be heard by the Shoreline Hearing Examiner. An Appeal Statement must be filed with the City Clerk within fourteen (14) days of the decision being appealed.

5.05.110 Additional enforcement. Notwithstanding the existence or use of any other remedy, the city attorney may seek legal or equitable relief to enjoin any acts or practices, which constitute or will constitute a violation of any business license ordinance or other regulations herein adopted.

Section 2. Severability. Should any section, paragraph, sentence, clause or phrase of this ordinance, or its application to any person or circumstance, be declared unconstitutional or otherwise invalid for any reason, or should any portion of this ordinance be pre-empted by state or federal law or regulation, such decision or preemption shall not affect the validity of the remaining portions of this ordinance or its application to other persons or circumstances.

Section 3. Effective Date and Publication. A summary of this ordinance consisting of the title shall be published in the official newspaper and the ordinance shall take effect 30 days after publication.

PASSED BY THE CITY COUNCIL ON OCTOBER 23, 2006.

Mayor Robert L. Ransom

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

Date of Publication:

Effective Date:

ORDINANCE NO. 444

**AN ORDINANCE OF THE CITY OF SHORELINE,
WASHINGTON ESTABLISHING A \$50 BUSINESS LICENSE FEE
AND ADDING SECTION 3.01.080 OF THE SHORELINE
MUNICIPAL CODE**

WHEREAS, implementing a business license program is considered to be a sound management practice to protect the City and its citizens; and

WHEREAS, the City desires to have all businesses register with the City in order to have a record of the business owners and to help ensure that businesses are in compliance with City ordinances; and

WHEREAS, the registration of all businesses will assist the City in the audit of sales tax receipts; and

WHEREAS, the City desires to charge a flat rate for all businesses that are required to obtain a license;

**NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF
SHORELINE, WASHINGTON DO ORDAIN AS FOLLOWS:**

Section 1. New Section. A new Section 3.01.080 "Business License Fees" is added to the Shoreline Municipal Code as follows:

Section 3.01.080 BUSINESS LICENSE FEES

- A. The fee for a twelve month business license required by Chapter 5.05 of the Shoreline Municipal Code shall be \$50. The fee may be pro-rated as necessary to conform to Section 5.05.070 of the Shoreline Municipal Code.
- B. The license fee shall be in addition to any license fee or tax imposed or levied under any law or other ordinance of the City except as otherwise expressly provided.
- C. The following shall be exempt from payment of fee:
 - 1. Nonprofit and not-for-profit activities and fundraising sales carried on by religious, charitable, educational, benevolent, fraternal or social organizations which have been determined by the Internal Revenue Service (IRS) of the United States to be exempt from the payment of income tax and whose charitable contributions would be deemed tax deductible and listed as such with the Washington Secretary of State.

Section 2. Severability. Should any section, paragraph, sentence, clause or phrase of this ordinance, or its application to any person or circumstance, be declared unconstitutional or otherwise invalid for any reason, or should any portion of this ordinance be pre-empted by state or federal law or regulation, such decision or preemption shall not affect the validity of the remaining portions of this ordinance or its application to other persons or circumstances.

Section 3. Effective Date and Publication. A summary of this ordinance consisting of the title shall be published in the official newspaper and the ordinance shall take effect 30 days after publication.

PASSED BY THE CITY COUNCIL ON OCTOBER 23, 2006.

Mayor Robert L. Ransom

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

Date of Publication:
Effective Date:

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Business License/Registration Program DEPARTMENT: Finance PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

The Council's 2005-2006 work plan includes the implementation of an active economic improvement plan. One of the milestones included in this goal is the implementation of a City business license/registration program. This staff report provides some options available to the Council in implementing such a program.

Although the City Council has had some preliminary discussions regarding a business license program and has indicated an interest in implementing such a program, this will be the first time in which the Council has a specific discussion on the policy direction that should be established for the business license program.

Specifically staff would like to have Council determine their policy direction on the following items:

- Regulatory or Revenue-Generating Business License Program
 - If Council desires a revenue-generating program, should revenues in excess of the cost of the business license program be allocated for a specific purpose such as economic development.
- Specific Exemptions or Thresholds
 - Are there exemptions other than non-profit agencies that the City Council would like considered?
 - Does the Council desire a minimum sales threshold before businesses are required to obtain a license or pay a license fee?
- One-time vs. On-going registration
 - Staff would recommend that the City require businesses to register annually. If Council has a different policy recommendation then it would be helpful to make staff aware of this at this time.

FINANCIAL IMPACT:

The 2006 adopted budget estimates annual business license program revenue at \$95,000.

RECOMMENDATION

Staff recommends that the Council provide direction on the policy questions presented in this staff report. Based on the Council direction, staff will proceed with the following:

- Develop an ordinance to implement the business license program

- Determine whether a partnership with the State Master License Services (MLS) can be used to implement the City's business license program or whether the City should independently implement a business license program
- Develop a business outreach program to provide information regarding the City's business license program to businesses.

If Council consensus on policy issues is reached on February 21, staff anticipates that they could return in April with a recommended ordinance to implement the business license program. It is staff's intent to implement the business license program during 2006. The timing of the program implementation may vary depending whether the City can partner with MLS or if we must establish an independent program.

Approved By: City Manager ____ City Attorney ____

INTRODUCTION

The Council's 2005-2006 work plan includes the implementation of an active economic improvement plan. One of the milestones included in this goal is the implementation of a City business license/registration program. This staff report provides some options available to the Council in implementing such a program.

BACKGROUND

The Revised Code of Washington (RCW) Chapter 35A.82.020 authorizes code cities to exercise the authority authorized by general law for any class of city to license and revoke the same for cause, to regulate, make inspections and to impose excises for regulation or revenue in regard to all places and kinds of business, production, commerce, entertainment, exhibition, and upon all occupations, trades and professions and other lawful activity.

Based on this authorization the City of Shoreline is authorized to assess business taxes and licenses in three forms:

1. Excise (percentage) taxes levied on different classes of business to raise revenue. These are commonly called general business and occupation taxes.
2. Licenses for the purposes of regulation only.
3. Licenses to regulate and raise revenue.

As the economic improvement plan includes consideration of a City business license/registration program, this staff report will focus on business licenses.

Regulatory License Fees

Regulatory license fees fall into two categories: 1) professional and occupational licenses and 2) business license fees. The City already assesses occupational license fees for some specialty businesses such as massage businesses, pawnbrokers, secondhand dealers, and solicitors. Other businesses are not currently required to obtain a license from the City of Shoreline.

Purposes for implementing a regulatory business license for all businesses include:

- Provide the City with a record of the owners and other contact information;
- Provide a master list of businesses and types of businesses that conduct business within Shoreline;
- Help ensure compliance with City ordinances (for example, zoning, fire and life safety, etc.); and,
- Provide a listing of businesses that can be used to audit against sales tax receipts to ensure that the City is receiving sales tax from all applicable businesses.

Regulatory business license fees are set at a flat rate per license in an amount designed to recover the costs of registering the businesses and the issuing the licenses, maintaining the files, and inspecting businesses to make certain that all have a license.

The fees charged should be fair and bear a reasonable relation to costs, including both direct and indirect costs.

Revenue-Generating Regulatory Licenses

Revenue generating business licenses are usually issued for all the same reasons as regulatory businesses, but the fee structure is established to generate revenue for City operations beyond the cost of implementing the business license program. Rather than charge a single flat fee to license all businesses, cities that license to generate revenue use a variety of criteria to separate businesses into different classes and then charge unique flat fees on each class. Some of the most common class differences include classifying businesses based on the number people they employ, fees based solely on the type of business, the square footage of the establishment, or a combination of these. The law allows for a good deal of creativity in designing these license fees. However, classes of the businesses must be clearly defined, with each firm within each class being charged the same fee.

Other Cities

According to the Association of Washington Cities 2004 Tax and User Fee Survey, 186 cities responded that they charged either a regulatory or revenue generating business license fee. Attachment A provides a list of 19 cities that are either in close proximity to Shoreline and/or are cities used as comparables to Shoreline. All of these cities require a business license. Of those 19, 11 of them charge a flat fee business license which would indicate that they are charging a business license for regulation purposes. Of those 11 cities charging a regulatory business license fee, five of the cities also charge a business and occupation tax. This would include Seattle, Bellevue, Everett, Lake Forest Park and Olympia. Bellevue and Everett only require that businesses obtain a license one-time and have no requirement for an annual renewal, although businesses must pay the business and occupation tax on an on-going basis. Of the seven cities charging a revenue generating business license fee, only one city, Burien, charges a business and occupation tax.

Although most cities put any revenue generated from business license fees in their general fund to cover the cost of implementing a business license program and other general government costs, the cities of Redmond and Renton, which have revenue generating business license programs, have chosen to allocate any proceeds from business license fees in excess of the cost of implementing their business license program towards economic development or capital improvements. The City of Redmond bases their business license fee on number of employees and charges a rate of \$83.25 per employee. This fee is composed of \$28.25 per employee as a base fee, and then an additional \$55 per employee as a surcharge. The surcharge is specifically allocated to funding for transportation infrastructure improvements. This generates nearly \$2 million of revenue annually for the City's transportation capital funding related to economic development.

State of Washington Master License Services (MLS)

The MLS is a program within the state Department of Licensing that provides a centralized "one-stop" combined-licensing service to state and local agencies and the business community. The combined-licensing allows MLS to provide a single, centralized process on behalf of many different licensing agencies. Businesses indicate

the licenses they need on a Master Application form that addresses the questions common to most applications, along with some specific information required of individual agencies. Applicants complete the single application and pay all required fees for the various agencies with a single check. A separate application must be filed for each physical business location, a common requirement of city business license programs. The application is processed at MLS, where the appropriate fees and information are then distributed through an automated process to each licensing agency affected by that application.

MLS then issues a single "Registrations and Licenses" document, commonly referred to as the 'Master License.' The license document is specific to a particular business location. Each of the licenses that have been granted to the business owner at that physical location appears as a line item "endorsement" on the Master License. Licensing agencies retain full regulatory control over their own license and continue to approve or deny the applicant as appropriate; the individual license endorsement is not printed on the 'Master License' until all of the regulating office's requirements are met. The 'Master License' includes a single, common expiration date for all licenses with a renewal requirement held by the licensee. This allows MLS to issue a single, annual renewal notice.

MLS allows cities to partner with them to issue their business licenses through this single common method and in fact they have developed a grants program to assist in meeting the cost of the partnership process. The grants program is to be available in 2006. To date five cities have partnered with MLS to issue their city business licenses: Bellevue, Richland, Sammamish, Tumwater, and Spokane Valley. City staff has already visited the City of Sammamish and Bellevue to discuss and review the process they use to issue licenses in conjunction with MLS.

In discussing with MLS staff their process and recommendations if the City of Shoreline desired to partner with them to issue City business licenses, they advise that in general the more simple the City's licensing requirements the more likely that the City's process will fit with MLS. Although MLS would try to accommodate more complex processes or requirements, the project may need to be postponed to a future date, or until after additional MLS enhancements have been developed. Complex requirements may include using a more complex fee schedule, such as per employee or square footage; a variety of exemptions; or a difficult classification of businesses.

Basic requirements that MLS would encourage to make the partnership between them and the City work better would include:

- Capability for establishing electronic data communication with MLS.
- Local government application questions that are easy for the applicants to complete, using a standard, shared addendum form along with the Master Application.
- Flat-rate license fee
- Little, or no information required to be collected at renewal time
- Ability to use the 9-digit Unified Business Identifier (UBI) number, plus a the 7-digit MLS extension to identify and track business records.
- Establishing a UBI Field Office at the City's own licensing office.

- Being able to accommodate expiration dates staggered throughout the year. (Many of cities have their business license cover a calendar year, and as such all of their business licenses expire annually on December 31. MLS works with a rolling twelve month license so expiration dates coincide with the anniversary date of when a business first obtained their license.)
- Focusing only on business licenses. MLS would normally expect that the City continue our internal process for the issuance of occupational type licenses (Adult Entertainment, Home Occupation permits, Pawnbroker Licenses, etc.)

Since the City is just in the formation stages of its business license program, we would be able to accommodate many of these requirements, if they were in line with the Council's policy direction in establishing a business license program.

As far as establishing a UBI Field Office, staff believes that we could accommodate this requirement. Basically, 'Master Applications' filed on paper must either be submitted at a public counter or mailed directly to MLS. The statewide UBI program allows business persons to submit a Master Application and receive a UBI number issuance at the counters of any of the regional service centers (field offices) of the State departments of Revenue, Labor & Industries, or Employment Security, and the main counters in Olympia of the Corporations Division of Secretary of State, and the Master License Service (Department of Licensing) – these five state agencies represent the UBI program managing board as well as being MLS partners. In addition, each participating city also accepts Master Application forms at its public counter.

Each of the field offices is responsible for maintaining a supply of the basic application forms, receipting the application filings submitted there, issuing the applicant a UBI number, and forwarding the application filings to MLS for further processing. Each field office is capable of connecting to the Department of Revenue computer system to issue UBI numbers, as well as the to the MLS computer system for account research. MLS does allow for on-line registrations, and therefore applicants are encouraged to pursue on-line registration.

MLS is supported through the handling fees it charges applicants and licensees directly for the combined licensing services provided. These handling fees are currently \$15 to a file a Master Application, regardless how many licenses are requested on the application; and \$9 to file a renewal, again regardless of the number of licenses being renewed. For Shoreline businesses that are already obtaining a license through the Department of Licensing, the business is already paying this handling fee when they file their master license application. This handling fee is in addition to the City's business license fee.

Based on staff's discussion with Bellevue and Sammamish, MLS does perform some of the business license enforcement actions, such as following up with businesses who have failed to obtain or renew required licenses.

Independent City Program

Many cities offer a business license program independent of the MLS and the City of Shoreline could decide to do this also. It is likely we would use the City's Hansen

software system to issue and track license transactions and information. Currently we would estimate that it would take at least a .5 FTE to be dedicated to the business license program, dependent on the number of enforcement actions and amount of time needed to follow-up on business license related inquiries after the program is implemented. The City would issue its own licenses and be responsible to process all payment transactions.

There are advantages and disadvantages with either operating a business license program through MLS or independently through the City. Basically operating a business license program directly allows the City to make the program as simple or complex as desired regarding fee structure, exemptions, renewals, enforcement, and process. Businesses would be required to obtain State licenses separately. Partnering with MLS may require that the City develop a more simplistic system in order to work easily with the State's system, but would provide for a "one-stop" licensing system for both the City's business license and state licenses for Shoreline businesses and less personnel impact to the City as the MLS is responsible for issuing licenses and collecting fees.

Policy Issues

Decisions on various policy issues will determine whether the City should further explore the ability to work with MLS or should develop a business license program independently. These policy decisions include the following:

1. *Regulatory or Revenue Generating Business License Program:* The City's fee structure will depend on the focus of the business license program. If the Council desires to have a business license program that focuses on regulation (identifying businesses that operate in the City, conformance with zoning regulations, etc.) then the fee structure will be a flat fee for all businesses with the revenue generated from the program approximating the cost of the business license program (both direct and indirect costs).

If the Council desires not only to use the business license program for regulatory purposes, but also to generate revenue for providing services or dedicating the revenue for a specific purpose, then the City can implement a revenue generating business license program. In this case, the City would need to determine classifications for businesses and apply a fee structure that meets those classifications. The most common classifications are number of employees employed by the business, square footage of business, or types of businesses.

Estimating that there will be a minimum of 1,400 business licenses issued by the City, the revenue generated by a regulatory business license at \$25 per license would be \$40,000, \$50 per license would be \$70,000, or at \$75 would be \$105,000. It is likely that there may be more than 1,400 businesses that would register in the City once the program is implemented. This estimate is based on the number of businesses that currently pay more than \$100 in annual sales tax to the City or does \$12,000 in annual sales. This does not mean that the City must exempt businesses that have \$12,000 in annual gross receipts or less, but this is the threshold that is used by the Department of Revenue for requiring

businesses to register in the State. Revenue generated by revenue generating business license program could be much greater depending on the basis used for assessing the business license fee. The fee for an individual business will vary based on either the number of employees employed by the business or the size of facility used to operate the business. If number of employees were used to determine the business license program under a revenue generating business license program, those businesses with a larger number of employees would most likely pay a much higher license fee than those with only a few employees. The 2006 adopted budget estimates that the City will collect \$95,000 in business license revenue annually.

Whether the City implements a regulatory or revenue generating business license program, may determine the City's ability to develop a partnership with the State of Washington MLS.

2. Specific Exemptions or Inclusions

Most cities provide that all businesses doing business within the City's boundaries be required to obtain a business license unless specifically exempted. Most cities exempt or provide for a minimum license fee for non-profit businesses that are registered with the office of the Secretary of State or have an IRS 501(c) certificate. Some exempt businesses that are below a specific sales threshold or exempt specific types of businesses. This information is included for comparable cities on Attachment A.

3. Renewal or One-Time Business License Fee

Most other cities require that businesses register annually and that a business license fee be charged annually. As you will see from Attachment A, two of the comparable cities charge a one-time fee, Everett and Bellevue. These cities also charge an on-going business and occupation tax on the business's gross receipts.

STAKEHOLDERS

Businesses

Once staff has received feedback from the City Council on the three policy areas, staff will engage in an outreach effort to the business community on the proposed business license program. The Economic Development Task Force has had several discussions regarding a business license program and in fact they have recommended that the City implement such a program. Their recommendation has not focused on a specific fee structure, but they have indicated that revenue generated should be used to pay for any costs of the business license program and then allocated towards economic development programs designed to benefit the business community.

After the Council determines if they desire to implement a regulatory or revenue generating program, staff will develop a recommended fee structure. A flat fee structure will result in all businesses paying the same fee. Small businesses may feel that they should not have to pay the same fee as large businesses. At the same time if a revenue-generating business license program is implemented and a graduated fee is developed, businesses with a large number of employees or larger facilities may pay a

much higher fee than businesses with few employees or small facilities. In either case this will be a new business expense for all businesses.

It is staff's desire to develop a program that is simple for businesses to comply with while meeting the policy direction of Council. Staff will work with businesses to identify how we can have the least impact to them while meeting the needs of the City.

Other Agencies

The Shoreline Fire District is very interested in the City implementing a business license program. We have included a representative from the District in staff discussions about a business license program. We will continue to work with them to identify how a program can provide mutual benefits to both of our governments. Even though this is the case, there may be times in which we may not be able to meet all the needs of the District.

SUMMARY

Although the City Council has had some preliminary discussions regarding a business license program and has indicated an interest in implementing such a program, this will be the first time in which the Council has a specific discussion on the policy direction that should be established for the business license program.

Specifically staff would like to have Council determine their policy direction on the following items:

- Regulatory or Revenue-Generating Business License Program
 - If Council desires a revenue-generating program, should revenues in excess of the cost of the business license program be allocated for a specific purpose such as economic development.
- Specific Exemptions or Thresholds
 - Are there exemptions other than non-profit agencies that the City Council would like considered?
 - Does the Council desire a minimum sales threshold before businesses are required to obtain a license or pay a license fee?
- One-time vs. On-going registration
 - Staff would recommend that the City require businesses to register annually. If Council has a different policy recommendation then it would be helpful to make staff aware of this at this time.

RECOMMENDATION

Staff recommends that the Council provide direction on the policy questions presented in this staff report. Based on the Council direction, staff will proceed with the following:

- Develop an ordinance to implement the business license program
- Determine whether a partnership with the State Master License Services (MLS) can be used to implement the City's business license program or whether the City should independently implement a business license program
- Develop a business outreach program to provide information regarding the City's business license program to businesses.

If Council consensus on policy issues is reached on February 21, staff anticipates that they could return in April with a recommended ordinance to implement the business license program. It is staff's intent to implement the business license program during 2006. The timing of the program implementation may vary depending whether the City can partner with MLS or if we must establish an independent program.

ATTACHMENTS

Attachment A – Comparable Cities Matrix

ATTACHMENT A

City	Regulation Only or Revenue Generating	Fee	Fee Base	One-Time or Annual	Threshold Amount/ Exemptions	B&O Tax
Auburn	Regulation	\$25	Flat Amount	Annual	None	N/A
Bellevue	Regulation	\$26	Flat Amount	One-Time	Farmers	0.1496%
Bothell	Revenue Generating	\$19-\$516+	Combination - # of employees, square feet, business type	Annual	\$1,000/month	N/A
Burien	Revenue Generating	\$30-\$150	# of employees	Annual	Non-Profit Farmers Govt. Agencies Minors	0.5%
Edmonds	Regulation	\$65	Flat Amount	Annual (\$25 Renewal)	Non-Profit Leasing a single rental unit or one private residence	N/A
Everett	Regulation	\$10	Flat Amount	One-Time	\$12,000/year	0.1%
Federal Way	Regulation	\$50	Flat Amount	Annual	Non-Profit	N/A
Kent	Regulation	\$75	Flat Amount	Annual	Non-Profit	N/A
Kirkland	Revenue Generating	\$100 -\$2,600	Combination - # of employees and gross receipts	Annual	\$2,000<Annual Gross Receipts Non Profit, Govt. Agencies, Religious Organizations (\$25 Fee)	N/A
Lake Forest Park	Regulation	\$20	Flat Amount	Annual	Non-Profit, Farmers, Taxi, limousine, airporter, Sellers operating outside the City an the only event occurring within the city is receipt of such services	0.2%
Lakewood	Regulation	\$35	Flat Amount	Annual	Farmers, Minors doing babysitting and delivery	N/A

ATTACHMENT A

City	Regulation Only or Revenue Generating	Fee	Fee Base	One-Time or Annual	Threshold Amount/ Exemptions	B&O Tax
					of newspapers, Non-profit	
Lynnwood	Revenue Generating	\$88+\$14 (Resident Business) \$142 +14 (Non-Resident) \$26+ \$14 (Home Occupation) \$105 One-Time First Time License	Flat Amount + per employee	Annual	Non-Profit	N/A
Mountlake Terrace	Revenue Generating	\$93-\$654	# of employees	Annual	Non-Profit	N/A
Olympia	Regulatory	\$80 First time \$30 Renewal	Flat Amount	Annual	<\$900 per quarter in gross receipts	Services – 0.2% Others – 0.1%
Redmond	Revenue Generating	\$83.25 per employee (\$28.25 per employee base + \$55 per employee surcharge for transportation infrastructure)	# of employees	Annual	\$15 for businesses < \$1,500 per year Govt. Entities; Farmers; Non-Profit; Residential Rental or Leasing of 4< Units; Under 18 Years of Age; Daycares < 13 Children	N/A
Renton	Revenue Generating	\$55 per employee	# of employees	Annual	Certain translators and attorneys that are providing services to clients but have a license in another City and do not have a physical location within Renton	N/A
Sea-Tac	Regulation	\$35	Flat Amount	Annual	<=4 sales transactions per year	N/A

ATTACHMENT A

City	Regulation Only or Revenue Generating	Fee	Fee Base	One-Time or Annual	Threshold Amount/ Exemptions	B&O Tax
Seattle	Regulation	\$80	Flat Amount	Annual	\$50,000/year license only	Services – 0.415% Others – 0.215%
University Place	Revenue Generating	\$50 \$25 – Home Occupation	Type of business + Square Footage	Annual	<\$12,000 per year in gross receipts; Minors; Govt. Entities; Non-Profit	N/A